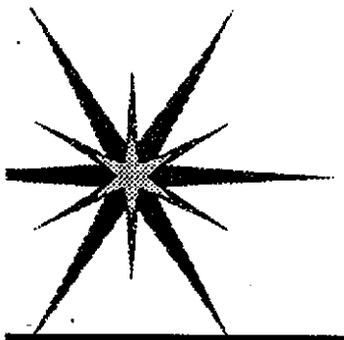

Amerada Hess/Pick Kwik

Cigarette Category
Merchandising Proposal

R. J. Reynolds Tobacco Company
May 30, 1997

51846 4196

Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Points For Discussion

- **Cigarette Merchandising 1996**
- **Cigarette Merchandising 1997**
- **Market Share Comparison Vs. Competition**
- **What Has Happened To Pick Kwik's Business?**
- **Business Conclusions**
- **Cigarette Merchandising Proposal For 1997 and Beyond**
- **Rationale**

Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Pick Kwik- Background
Cigarette Category

- **1996**
  - **RJR: 2 Full Price Displays (located on counter). Savings Display (located non self-service on backbar). Lighted Enhanced Sign.**
  - **Philip Morris: Level II Retail Masters**
  - **BAT: Full Price Display (on counter), GPC Display (NSS)**
  - **Private Label Status:**

RJR	**Monarch**
PM	**Bronson**
Liggett	**Yours**

Total (estimated monthly) RDA's- $ 914.00

Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Pick Kwik
Cigarette Category

- **1997**
  - **Philip Morris: "Exclusivity"**
  - **Private Label Status:**

RJR	**Monarch**
PM	**Bronson**
Liggett	**Yours**

Total (estimated monthly) RDA's- $ 970.00

Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Share Of Market Comparison- Cigarette Category
Florida Trading Area

Company	Dess Mart	Pick Kwik	Chain B	Chain C	Chain D
RJR	25.7%	16.5%	19.6%	19.5%	23.8%
P. Morris	52.4%	69.1%	59.5%	61.6%	52.5%
BAT	10.2%	8.3%	10.5%	10.2%	11.0%
Lorillard	11.4%	5.6%	10.4%	8.7%	5.3%
Liggett	.2%	.1%	n/a	n/a	7.5%

Source: RJR Data (MSA) time period 1/20-4/20/97

Note: All chains with exception of Pick Kwik have "Industry Approach" Merchandising Philosophy

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Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Share Of Market Comparison- Private Label
Florida Trading Area

	Hess Mart	Pick Kwik	Chain B	Chain C	Chain D
Private Label	**11.5%**	**1.2 %**	**.1 %**	**.1 %**	**7.3 %**

Source: RJR Data (MSA) time period 1/20-4/20/97
Note: All chains with exception of Pick Kwik have "Industry Approach" Merchandising Philosophy

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Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Question

- **PM spent $ 225,000 to promote their brands during the 1st Quarter**
- **PM "covered" Pick Kwik during the March Price increase. As a result area Retailers purchased cigarettes from stores.**
- **PM has increased allocations of Marlboro B4G1F.**
- **PM is currently funding a special 3 pack program**

<u>Bottom line, Philip Morris has significantly inflated cigarette volume in Pick Kwik</u>

Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

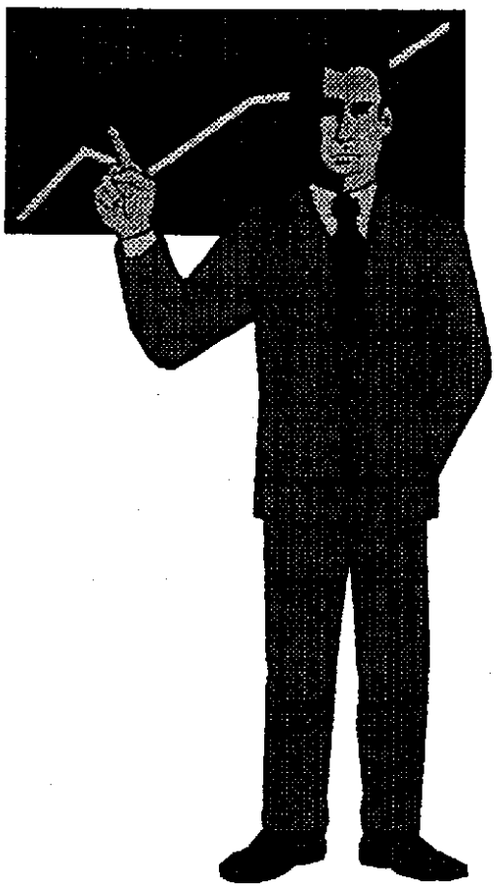
Pick Kwik
Comparison Of Promotional Vs. Non Promotional Periods

	Promotional	Non Promotional *
Total Weekly Volume	370	310
Pack Sales	180	151 (49%)
3 Pack Sales	80	67 (21%)
Cartons	110	92 (30%)

* Comparison of non promotional period. Non buy down period. Includes only special pricing for GPC, and $.06/pack competitive advantage price (co-funded).

Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Conclusions...Conclusions...Conclusions



- **Unlimited, and ongoing promotions will increase volume**
- **Volume will not be sustained unless promotions are continued**
- **Shoppers will continue to shop where they find the best price, and variety on an <u>everyday basis</u>**

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Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Pick Kwik
Cigarette Category

- **Proposed**
  - **RJR Level II Retail Partners (current Hess Mart setup)**
  - **Philip Morris: Level II Retail Masters**
  - **Display Programs from Lorillard and BAT**
  - **Private Label RJR Signature**

Estimated Monthly RDA's	
RJR	**$ 250.00**
PM	**$ 605.00**
Lorillard	**$ 42.50**
BAT	**$ 210.00**
Total	**$ 1,107.50**

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Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Pick Kwik
Cigarette Category Merchandising Proposal

Rationale

- **Studies have proven that *Exclusivity***
  - **Minimizes customer satisfaction**
  - **Long term, reduces total category volume and profitability**
  - **Makes the Retailer less competitive in marketplace**

- **Consistent With Hess Philosophy.....*Give consumers what they want!***
  - **Brand selection**
  - **Promotions**
  - **All price points...Full Price, Savings, Private Label**

Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Pick Kwik
Cigarette Category Merchandising Proposal

Rationale Cont'd

- **Availability of promotions from all Manufacturers'**
- **Competition is good!. The best all Companies have to offer!**

When a consumer walks into a PIck Kwik Store they should find:

- **Best product selection**
- **Availability...stock levels, displays**
- **Variety of promotions...cents off, buy some get some free, premiums**

Pick Kwik should be their Cigarette Store!

Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000

Pick Kwik
Philip Morris Exclusive Analysis

	Industry Approach	PM Exclusive
RJR Discounting	$ 384,515	
RJR Menthol Disc.	$ 37,026	
Winston 3 Pack EDLP	$ 76,500	
Monarch Discounting	$ 15,787	
GPC Discounting	$ 35,798	$ 35,798
Marlboro Discounting	$ 1,065,900	$ 1,545,555
Marlboro 3 Pack		$ 349,034
Work Plan Promos	$ 60,588	
Industry Contracts	$ 861,480	$ 735,966
Lorillard Carton		$ 33,252
Temporary Pack Disp.		$ 4,752
RJR Direct Marketing	yes	no
SIGNATURE Program	yes	no
Total Sales Based GP	$ 1,676,114	$ 1,930,387
Total Contract GP	$ 861,480	$ 773,970
Total Gross Profit	$ 2,537,594	$ 2,704,357
PM Advantage		$ 166,763

Note: All figures with exception of Industry Payments based on gross profit percentage. Analysis comparable to comparison presented by Pick Kwik Management.

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Source: https://www.industrydocuments.ucsf.edu/docs/ntky0000